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## Ansoff Matrix

		Products	
		Current	New
Markets	Current	Market Penetration	Product Development
	New	Market Development	Diversification

- Why Firms Diversify
  - To grow
  - To more fully utilize existing resources and capabilities.
  - To escape from undesirable or unattractive industry environments.
  - To make use of surplus cash flows.
- Efficiency based vs. Managerial based diversification

- **The Traditional View: the two basic measures**
  - Using an objective index like the entropy index of SIC: common input requirements and similar production/technology functions; and/or
  - When a common skill, resource, market, or purpose applies to each.’ (Rumelt, 1974: 29).
- **The Difficulty/ Biasness**
  - Strategic importance of assets
  - The assets on which long-term competitive advantage critically depends (strategic assets) are, those that are imperfectly imitable and imperfectly substitutable

- *Customer assets, such as brand recognition, customer loyalty and installed base;*
- *Channel assets, such as established channel access, distributor loyalty and pipeline stock;*
- *Input assets, such as knowledge of imperfect factor markets, loyalty of suppliers and financial capacity;*
- *Process assets, such as proprietary technology, product or market-specific functional experience (e.g., in marketing or production) and organizational systems;*
- *Market knowledge assets, such as accumulated information on the goals and behavior of competitors, price elasticity of demand or market response to the business cycle.*

# Five Different Types of Relatedness

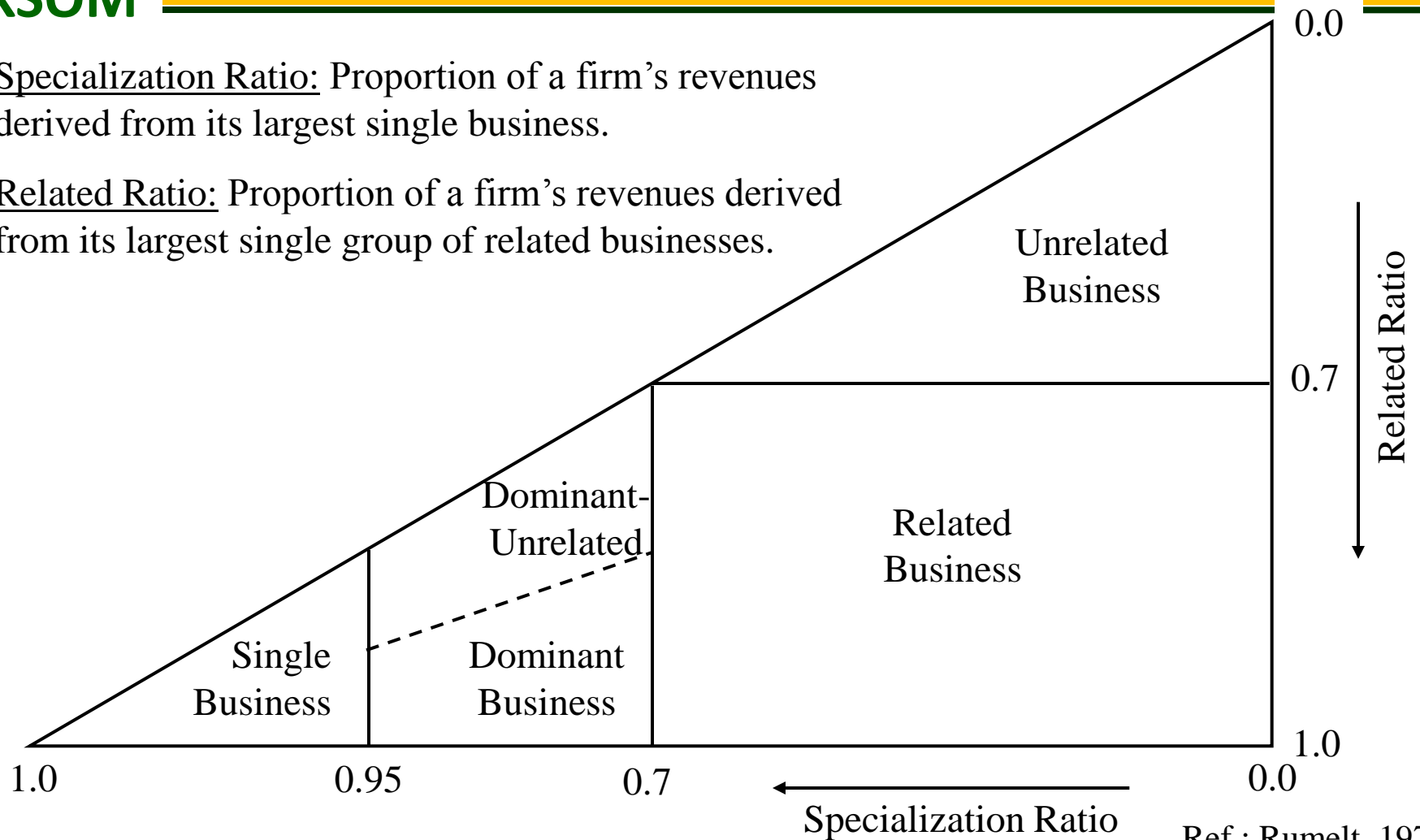
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1. Exaggerated relatedness
2. Amortization advantage
3. Asset improvement
4. Create a *new strategic asset in a new business faster, or at lower cost*
5. Asset fission

# Firms Vary by Degree of Diversification

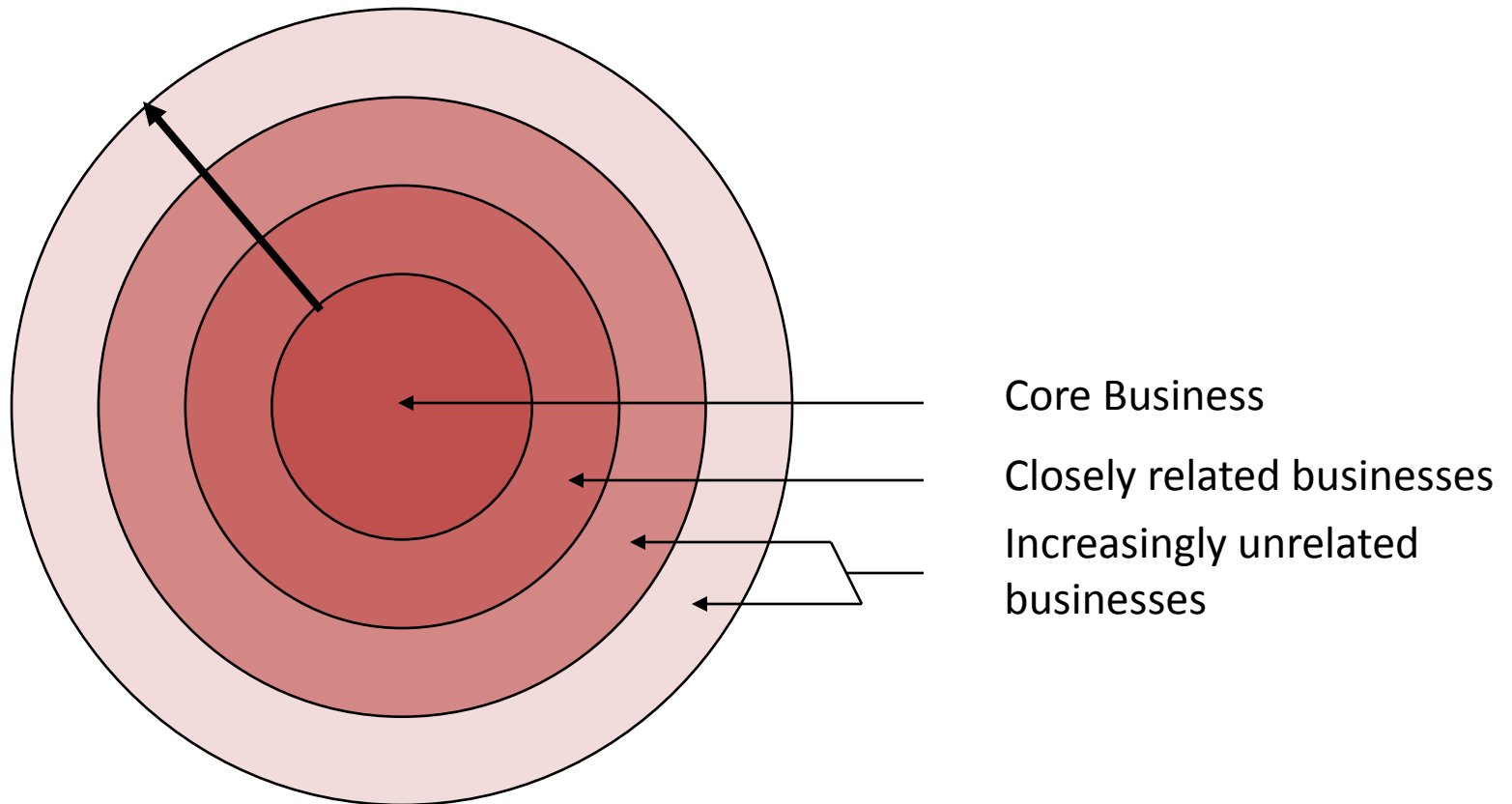
Specialization Ratio: Proportion of a firm's revenues derived from its largest single business.

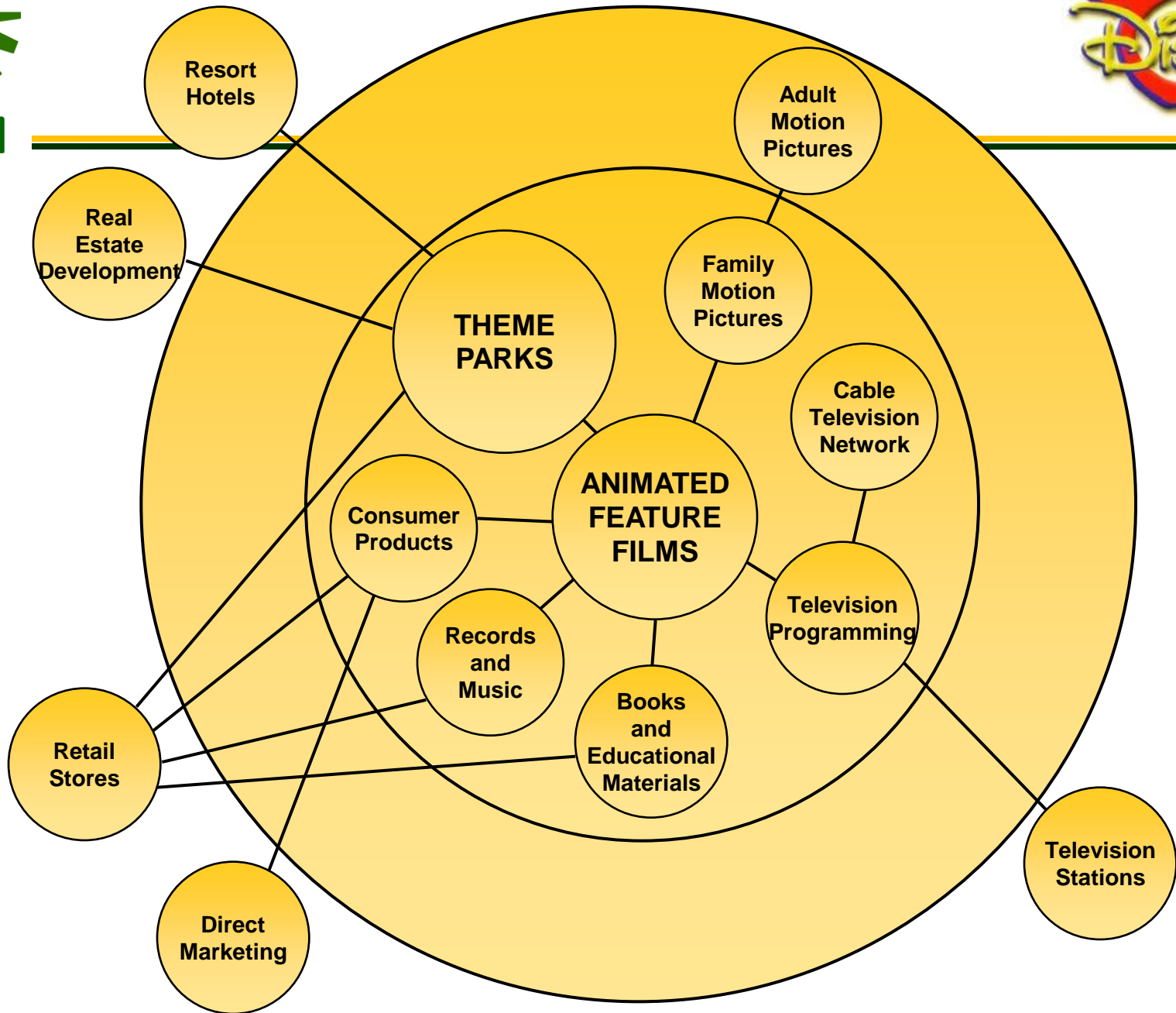
Related Ratio: Proportion of a firm's revenues derived from its largest single group of related businesses.



Ref.: Rumelt, 1974

# Pattern of Diversification

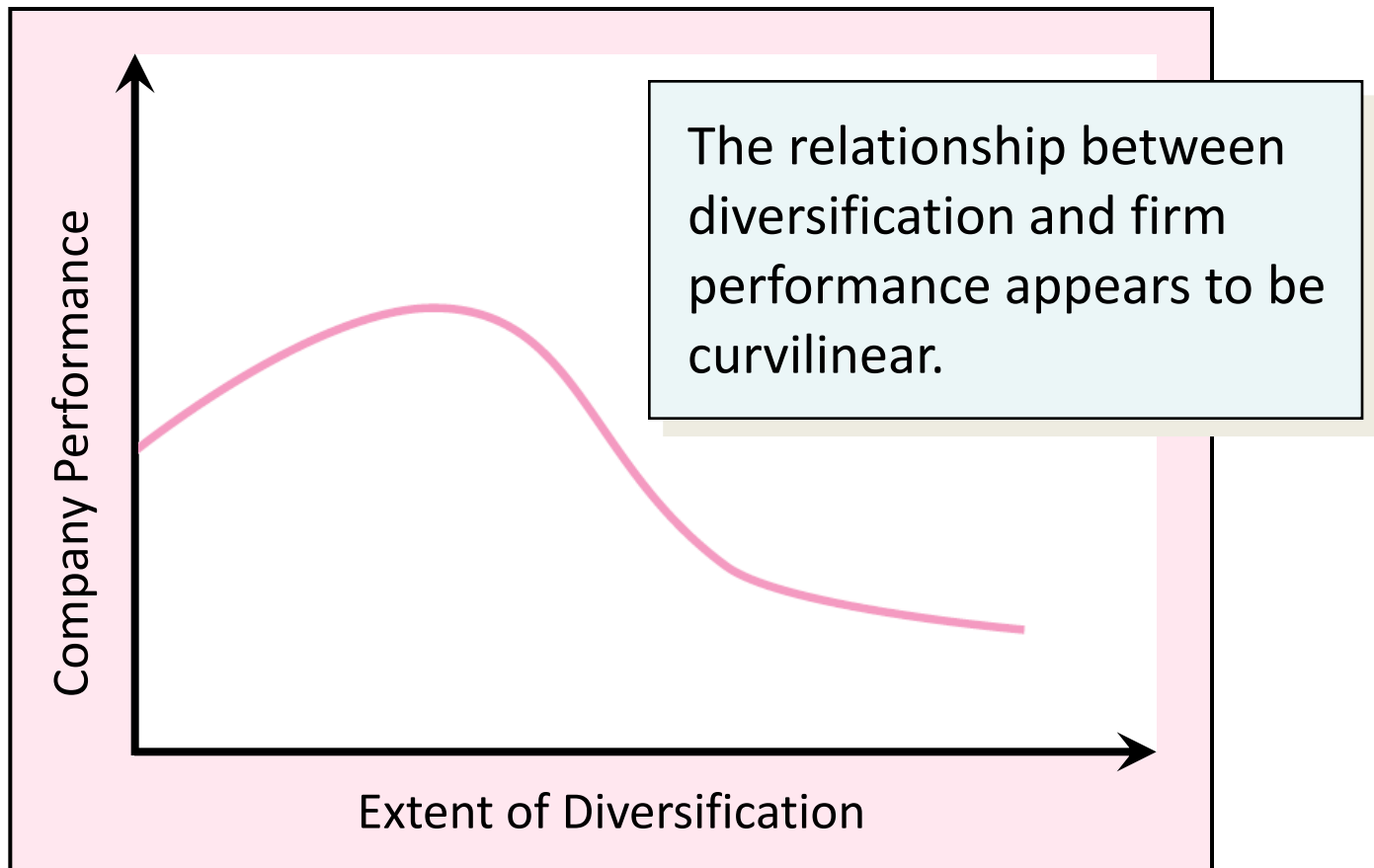




# Diversification and Firm Performance

## The “Conglomerate Discount”

Adapted from Figure 4.6: The Relationship between Diversification and Performance





# Strategies for Related Diversification

What is the motive to expand now?

Offensive: Leveraging existing strengths;  
pre-empting rivals  
Defensive: Escaping weak core

Industry

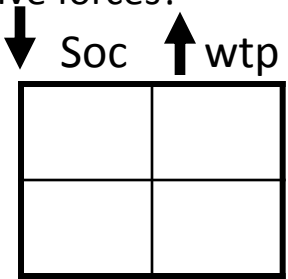
How attractive is the industry now

What are key sources of competition?  
How vulnerable is intended positioning strategy to these competitive forces?

Synergies

Where are the scope Economies with our existing businesses?

Common resources  
Sharing activities



Implementation

What organisational changes are necessary to exploit scope economies

Front end or back end integration?  
Organise by SBUs or functions  
Informal coordinating mechanisms

Ownership

Where should boundaries of the firm be drawn?

Growth in the pie (market failure)  
Capture more of the pie (market power)

- Markets are absent
- Specific investments & hold-up
- Increase efficiency thru coordination
- Fore-closure/ entry barriers
- Use integration as leverage



## Strategies for Related Diversification : Common Traps

What is the motive to expand now?

Defensive expansion: Escaping weak core  
Eternal pressures (capital market, P/E game)  
Internal slack (flush with cash)

Industry

How attractive is the industry now

Interpret threats as opportunities  
Ignore impact of comp. forces on target position  
Identify similarities with existing businesses

Synergies

Where are the scope Economies with our existing businesses?

Overestimate or misidentify key resources/ core competencies  
Ignore commonalities in activities  
Rely on WTP enhancement (subjective, non-quantifiable)

Implementation

What organisational changes are necessary to exploit scope economies

Ignore organisational considerations and incentives to change  
Mismatch with existing organisation

Ownership

Where should boundaries of the firm be drawn?

Own to reduce risks  
Own to capture profit elsewhere  
Own to stabilise input prices